

Wisconsin State Legislature

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Joint Committee on Finance *100TH ANNIVERSARY 1911 - 2011*

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative Robin Vos

Date: May 23, 2011

Re: 14-Day Passive Review Approval –DOA

Pursuant to s. 16.405(3), Stats., attached is a 14-day passive review request from the Department of Administration, received on May 23, 2011.

Please review the material and notify **Senator Darling** or **Representative Vos** no later than **Friday, June 10, 2011** if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AB:RV:jm



WISCONSIN DEPARTMENT OF
ADMINISTRATION

SCOTT WALKER
GOVERNOR

MIKE HUEBSCH
SECRETARY

Office of the Secretary
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May 23, 2011

The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
Room 317 East, State Capitol
Madison, WI 53707

RECEIVED
MAY 23 2011

BY: J. Finance

The Honorable Robin Vos, Co-Chair
Joint Committee on Finance
Room 309 East, State Capitol
Madison, WI 53707

Re: Operating Notes for 2011-12 Fiscal Year

Dear Senator Darling, Representative Vos, and Members:

The State of Wisconsin (**State**) has previously issued operating notes because of differences in the timing of receipts and disbursements. The Department of Administration has determined that, due to timing differences, a deficiency will occur in the funds of the State which will not permit the State to meet its operating obligations in a timely manner during the 2011-12 fiscal year.

As required by s. 16.405 (3), Wisconsin Statutes, I hereby notify the Joint Committee on Finance that the department proposes to submit a request to the Building Commission for the issuance of operating notes in an amount not to exceed \$800,000,000 for the 2011-12 fiscal year. The actual amount of operating notes to be issued depends on many factors, including ending General Fund cash balance for the 2010-11 fiscal year, budgetary provisions for the 2011-12 fiscal year, receipts and disbursements in the upcoming months, and the borrowing and investment rates at the time the operating notes are issued.

The operating notes will be issued pursuant to s. 16.405 (1) and Subchapter III of Chapter 18, Wisconsin Statutes.

Sincerely,

Mike Huebsch
Secretary



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

MIKE HUEBSCH
SECRETARY

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Date: May 23, 2011
To: Members, Joint Committee on Finance
From: Mike Huebsch, Secretary *MH*
Department of Administration
Subject: Section 16.405(3) Request for Operating Note Approval

Request

The Department of Administration requests Joint Committee on Finance approval under s. 16.405(3) to request the Building Commission to authorize an operating note of up to \$800 million for fiscal year 2011-12.

Background

Due to differences in the timing of receipts and expenses within fiscal years, the general fund has historically incurred short-term cash deficits. These short-term deficits occur because school, municipal and county aid payments are made in advance of state tax collections supporting those payments. These timing mismatches regularly occur even within a balanced budget. Short-term cash deficits do not by themselves indicate a fiscal year shortfall.

There are two principal means to address short-term cash deficits.

- Interfund Borrowing. With interfund borrowing, the general fund uses cash from other operating funds. In general, interfund borrowing is limited to 5 percent of GPR appropriations with an additional 3 percent available for 30 days for a total 8 percent borrowing limit. During deliberations on the 2011-13 biennial budget to date, the Joint Committee on Finance has voted to increase the maximum interfund borrowing limit on a one-time basis to 12 percent of GPR appropriations (9 percent plus 3 percent additional). The general fund repays the borrowing at the state investment fund yield.

Interfund borrowing was used in fiscal years 1980-81 to 1982-83 before operating notes were authorized. Interfund borrowing has also been used periodically as a secondary source of cash if operating notes were not issued.

- Operating Notes. Since fiscal year 1983-84, operating notes have been used most often to match the size of the general fund's cash deficits and to minimize borrowing costs. Operating notes were issued annually from fiscal year 1983-84 to fiscal year 1998-99 and again in fiscal years 2001-02, 2003-04, 2007-08 to 2010-11. Variability in the general fund's cash balances has

required annual evaluation of borrowing needs. The note size has ranged from \$150 million to \$800 million.

No operating note was issued during fiscal year 1999-2000 or fiscal year 2000-01 because cash balances were sufficient. No operating note was issued in fiscal years 2004-05 to 2006-07 because interfund borrowing was roughly as inexpensive as borrowing through an operating note.

In fiscal year 2011-12, short-term borrowing will again be necessary to cover temporary cash imbalances. Under the Governor's budget recommendations, but excluding the creation of a University of Wisconsin – Madison Authority, the lowest daily cash balance will reach approximately -\$678.9 million in mid-August. These estimates reflect the availability of the University of Wisconsin's Auxiliary funds and other program revenue accounts held in trust from estates or court decisions. While held in the general fund, any use of these dollars aside from their designated purpose constitutes borrowing. In fiscal year 2010-11, these PR balances have varied from \$497 million to \$1,222 million. Assuming similar amounts in fiscal year 2011-12 and adjusting for these PR balances, the lowest cash position will exceed -\$1,170 million.

Analysis

In general, the state utilizes operating notes (1) to maintain liquidity and (2) to borrow at the lowest possible cost.

Operating notes ensure the general fund has adequate cash to meet its payment obligations. While interfund borrowing is available to the general fund, the amount available to borrow is constrained. First, there is the statutory limit. Second, there is a set list of funds from which the general fund may borrow. These funds must have adequate cash themselves to make interfund borrowing useful. If other operating funds are also using interfund borrowing, the pool of available funds diminishes. Third, the Local Government Investment Pool is a less reliable source of funds than other state operating funds. While the Local Government Pooled Investment Fund is available for short-term borrowing, these funds are redeemable within 24 hours.

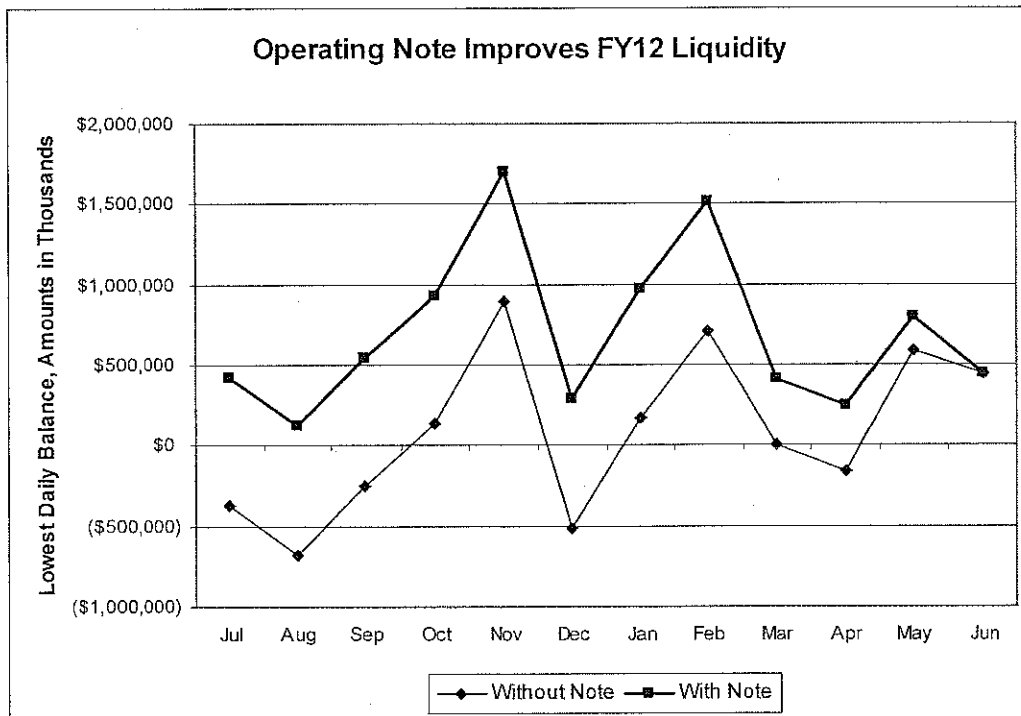
As in previous years, the department will size the operating note below the maximum cash shortfall. This is necessitated by federal arbitrage requirements. An actual cash shortfall must use at least 90 percent of the proceeds of the note within six months after issuance of the note. If this test is not met, the state must rebate the excess earnings on the note to the U.S. Treasury. This authorization request has been sized with a margin of error to avoid an earnings rebate if economic growth is stronger than expected.

Operating notes often offer the most cost-effective means of acquiring short-term funds. In the current interest rate environment, there is little difference between using interfund borrowing and using operating notes. The issuance of the operating notes would be sized to ensure the general fund has sufficient liquidity

to meet its obligations using a combination of operating notes and interfund borrowing.

The improvement in cash balances by using operating notes is illustrated in Chart 1. The sharp dips that are evident in the cash balances are the result of major aid payments. School aid payments are made in September, December, March and June. Shared revenues are paid in July and November. The school levy credit is paid in July. These three programs alone account for 42 percent of all GPR spending. In addition, monthly Medical Assistance contract payments may occur prior to tax revenue filings and further reduce the daily cash balance of the general fund.

Chart 1



At this time, the cash flow statement reflects the Legislative Fiscal Bureau's May 2011 general fund tax revenue reestimates and the Governor's fiscal year 2011-12 budget recommendations, but does not include any expenditure authority adjustments that have been or may be approved by the Joint Committee on Finance. It also does not reflect other fiscal pressures that have come to light since the introduction of the Governor's budget recommendations, such as lower Master Settlement Agreement (tobacco) payments, and increased claims under the homestead and veterans and surviving spouses property tax credits. In addition, if the Legislature and the Governor choose to make a one-time cash payment to replace the injured patients and families compensation fund monies as required through court order, there will be a significant increase in one-time expenditures compared to the Governor's budget

recommendations. Finally, the expected savings from the compensation changes in 2011 Wisconsin Act 10 have not been realized due to a temporary restraining order. These items would have a significant negative impact on the cash flow. For example, if the injured patients and families compensation fund payment would be made by early August, the lowest cash balance could reach -\$887.9 million. Table 1 summarizes these additional pressures on the general fund.

Table 1: Fiscal Pressures, FY11 and FY12

Item (\$ in millions)	FY11-FY12 Impact
Revenues	
Master Settlement Revenues	-\$27.0
Expenditures	
Injured Patients & Families Compensation Fund (net of amounts in Governor's recommendations)	\$209.0
Property Tax Credits	35.0
2011 Act 10 Lapses	29.8
Total Pressures on General Fund	\$300.8

Under s. 18.725, operating notes are limited to no more than 10 percent of total GPR and PR appropriations. Under the Governor's budget recommendations, the requested maximum fiscal year 2011-12 (2011) operating note will be below this limit at 4.94 percent.

While decisions made regarding the remainder of fiscal year 2010-11 and the 2011-13 biennial budget will impact the cash flow, this request is being submitted now to provide the Committee with the required 14-day passive review before June 15, 2011, the date that the Building Commission will be requested to consider an authorizing resolution for operating notes. The next Building Commission meeting is scheduled for August 10, 2011, and would not provide sufficient time to issue an operating note and receive proceeds prior to the lowest cash balance scheduled to occur on August 11, 2011.

Recommendation

Approve the request.

Prepared by: Kirsten Grinde
 266-1040